

8. IMR REPORT

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26 MAR 2024

The Board of Directors
Carlo Rino Group Berhad
No. L2-05, 2nd Floor, Ikon Connaught
Lot 160, Jalan Cerdas
Taman Connaught
56000 Kuala Lumpur
Wilayah Persekutuan, Malaysia

Dear Sir/Madam,

INDEPENDENT MARKET RESEARCH REPORT ON THE FASHION INDUSTRY IN MALAYSIA (“IMR REPORT”) FOR CARLO RINO GROUP BERHAD

This IMR Report has been prepared for inclusion in the Prospectus of Carlo Rino Group Berhad (“**CRG**” or “**Company**”) in conjunction with the transfer listing of the CRG from the LEAP Market of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) to the ACE Market of Bursa Securities.

Mr. Leow Hock Bee is the Research Director of Infobusiness Research & Consulting Sdn Bhd (“Infobusiness Research”). He has a Bachelor of Science (Honours) Geology from the University of Western Ontario, Canada and a Masters of Business Administration from Massey University, New Zealand. For more than 15 years, Infobusiness Research has been providing independent market research reports on corporate exercises, including initial public offerings and reverse takeovers. He has more than 30 years of experience in market research, starting his career at Ban Hin Lee Bank Berhad where he spent 10 years. He has been involved in the research of a wide range of industries such as electronics, engineering supporting, furniture, rubber gloves, retreaded tyres, plastics packaging, oil and gas, oil-palm based, construction and property development, predominantly in corporate exercises for public listed companies.

This research is undertaken with the purpose of providing a strategic and competitive analysis of the fashion industry in Malaysia. The research methodology includes both primary research, involving in-depth interviews with pertinent companies, as well as secondary research such as reviewing press articles, periodicals, government literatures, in-house databases, internet research and online databases.

This IMR Report contains information supplied by and analysis based on public and private sources. To the extent such sources have been cited herein, we hereby confirm that we are allowed to make reference to such sources. We believe that they are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information.

Infobusiness Research has prepared this IMR Report in an independent and objective manner and has taken all reasonable consideration and care to ensure its accuracy and completeness. This IMR Report should not be taken as recommendation to buy or not to buy the shares of any company.

For and on behalf of
INFOBUSINESS RESEARCH & CONSULTING SDN BHD


Leow Hock Bee
Research Director

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IMR REPORT ON THE FASHION INDUSTRY IN MALAYSIA

1.0 Introduction to the Fashion Industry

A fashion is the style or styles of clothing and accessories worn at any given time by groups of people. The fashion industry in Malaysia is a multi-billion RM industry devoted to the business of design, manufacturing, distribution and selling apparels, footwear, handbags and accessories. It has fashion and design organisations, as well as many creative talents such as models, hair stylists, make-up artists, model agents, photographers, etc. that all make up a larger fashion ecosystem that has become more vibrant.

The fashion industry reaches out to customers via an extensive network of outlets, as well as constant marketing and advertising activities. The wide product range available in the shopping malls allow customers to compare between brands, designs and prices. Also, fashion retailers organise sales and promotional events to boost sales on a periodical basis. Social media channels have not just become important to the selling of fashion but also as part of forecasting and determining future trends. Fashion retailers can showcase new arrivals through frequent updates of pictures and descriptions on social media, as well as the sponsorships of celebrities to showcase their products.

The fashion market in footwear, handbags and accessories encompasses a wide range of products with marked differences in product quality and prices. At the top end, in the premium and luxury market, are products that bear prestigious brand names and higher prices, usually of high quality. Below this premium and luxury market is a broad middle market in which products are differentiated by features, brand names and prices. Product differentiation decreases while the breadth of distribution increases at lower price levels. At the lower end, unbranded or private brand products with few differentiating features are sold in significant volumes and at low margins, competing primarily on price.

2.0 Segmentation of the Fashion Industry

The fashion industry can be segmented into four major segments as illustrated figure 1 below.

Figure 1: Main Segmentations of the Fashion Industry



Note: Currently, Carlo Rino Group Berhad and its subsidiaries ("CRG Group") are mainly involved in the footwear, handbags and accessories segments of the fashion industry, as indicated by the dotted boxes.

Source: Infobusiness Research

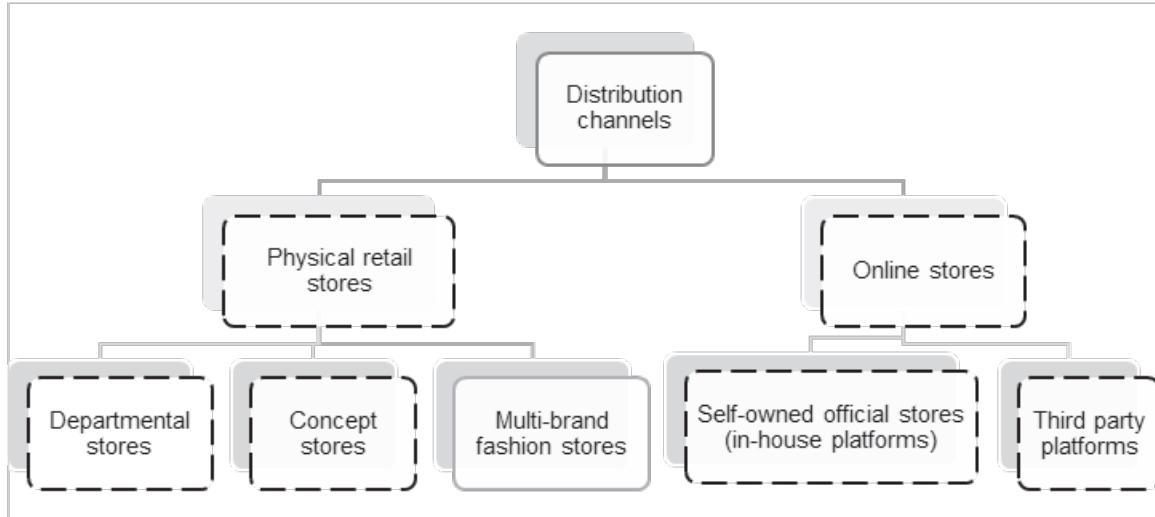
3.0 Distribution Channels

Fashion retailers in Malaysia generally operate in vertical markets, which refer to retailers offering products that are related to fashion. Vertical markets are more focussed and targeted at a specific group of consumers. The distribution channels for the fashion industry can be in the form of physical retail stores (also known as brick-and-mortar stores) and/or online stores (figure 2).

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Figure 2: Distribution Channels in the Fashion Industry

**Note:**

Currently, CRG Group is involved in selected segments of the distribution channels in the fashion industry, as indicated by the dotted boxes. Boutique stores, which are highly personalised stores, exist in both the concept stores and multi-brand stores segments. Usually, a customer-centric and one-to-one customer service experience is provided to give customers the best value and experience possible.

Source: Infobusiness Research

3.1 Physical Retail Stores

For the physical retail stores, the distribution channels for fashion products encompass departmental stores, concept stores and multi-brand fashion stores.

Departmental stores

The advantages of fashion retailers selling through departmental stores are that the fashion retailers can expect higher volumes of foot traffic, leading to potentially higher sales turnover, as well as more visibility for their brands and products. However, the key downside of departmental stores is that there may be limited space available to display and store the products.

Concept stores

Concept stores sell well-curated products matching the stores' themes. They often evoke a lifestyle appealing to a specific target audience. The concept stores have the following attributes:

- innovative and original;
- a wide variety of stylish products;
- from a brand built around a concept; and
- from suppliers with proven quality control.

Multi-brand fashion stores

Multi-brand fashion stores are retailers that offer a variety of fashion brands, including their own brands. As such, customers can walk in, look for options, compare prices, features and specifications offered by the different brands and choose the one that they prefer the most.

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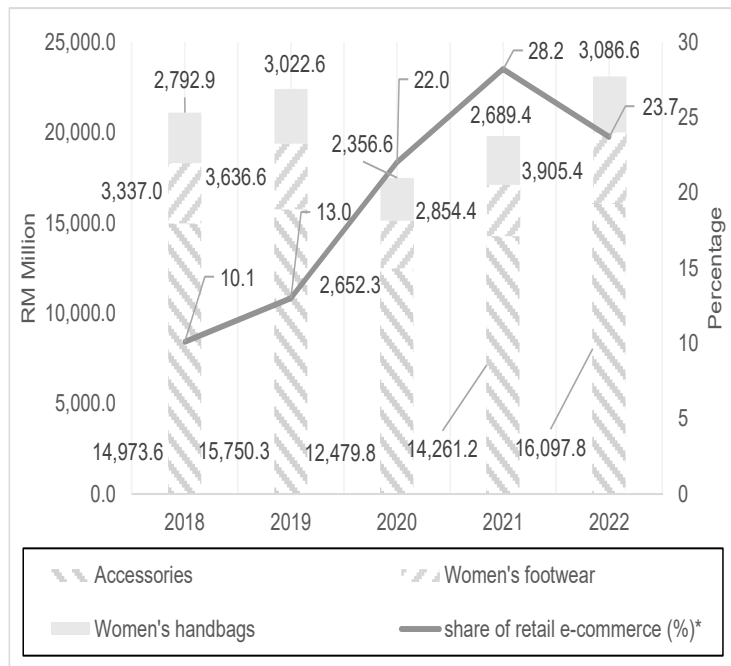
3.2 Online Stores

While e-commerce is developing rapidly in Malaysia, it is unlikely to replace shopping at physical stores but will complement it. Fashion retailers must be able to sell to their customers not only through physical stores, but also online via self-owned official stores (in-house platforms) or third party platforms. Brick-and-mortar retail stores will remain relevant as they can complement online sales, as the former can assist to build greater brand awareness and to showcase products and to have direct face-to-face interactions with customers. The usage of data analytics in e-commerce platforms can assist the fashion retailers/sellers to profile their consumers through customer behaviours and preferences. The identified consumers receive personalised recommendations based on their purchase histories, and new consumers by their age and gender.

4.0 Past Performance

Traditionally, fashion products were sold in brick-and-mortar stores and departmental stores. The late 20th century saw the rise of the internet as a major player in the retailing of fashion. Although many fashion retailers create websites to sell items online and leverage on social media platforms to market and promote their products, physical retail stores are still important within the retail landscape.

Figure 3: Revenue of Selected Segments of the Fashion Industry in Malaysia (RM Million)



The revenue of selected segments of the fashion industry in Malaysia between 2018 and 2022 are as follows (figure 3):

accessories – RM14.97 billion to RM16.09 billion, recording a CAGR of 1.8 %;

women's footwear – RM3.34 billion to RM3.91 billion, recording a CAGR of 4.0%; and

women's handbags – RM2.79 billion to RM3.09 billion, registering a CAGR of 2.5%.

Notes:

Some accessories are used by both genders, such as jewellery, watches and writing instruments.

* Refers to fashion industry as a whole.

Source: Infobusiness Research

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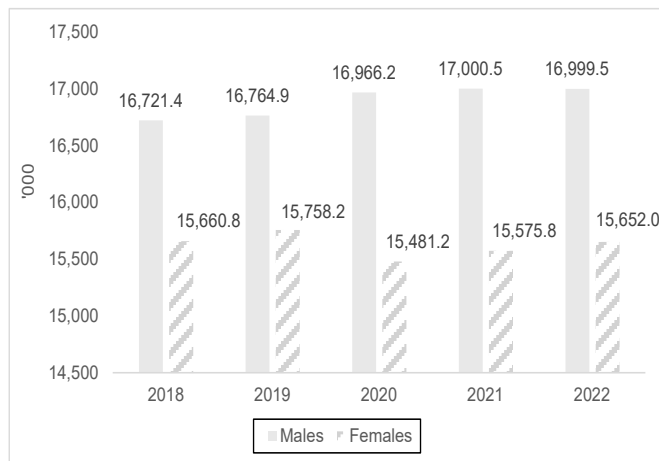
As most Malaysians stayed at home during the MCO and its various iterations, the demand for fashion products decreased due to the non-essential need to dress up while at the comfort of their own homes. However, that did not mean that Malaysians had completely stopped buying fashion products. The share of e-commerce sales in the fashion industry as a whole in Malaysia had progressively increased from 10.1% in 2018 to 23.7% in 2022. With the re-opening of all economic sectors in Malaysia since April 2022, the fashion industry appears to be on the way to recovery.

5.0 Demand Conditions

5.1 AN EXPANDING POPULATION

An expanding population has a direct impact on the demand for fashion products, including female fashion products (figure 4). They formed a base for the consumption of fashion products.

Figure 4: Population of Malaysia



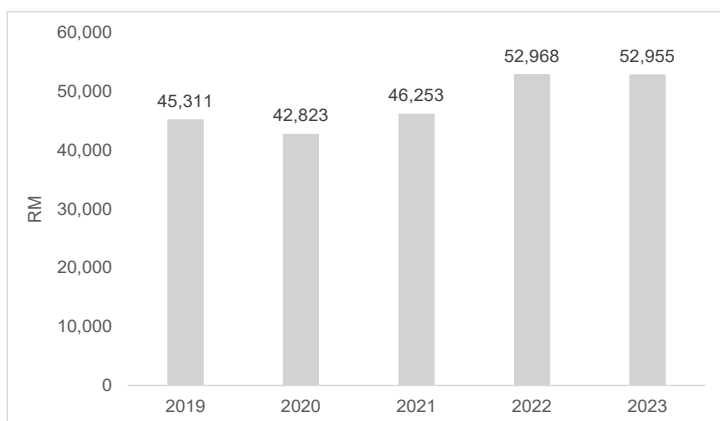
The number of males in the population increased by a CAGR of 0.4% between 2018 and 2022 (16.7 million to 16.9 million), while the number of females remained relatively constant (15.7 million). As most Malaysian women are benefitting from rising empowerment and financial independence, they use modern fashion to express themselves and to feel good about themselves and are very keen on branded fashion products.

Source: Department of Statistics Malaysia

5.2 RISING PER CAPITA INCOME

A rising per capita income reflects higher spending power which will have a positive spill over effect on the demand for fashion products.

Figure 5: Per Capita Income in Malaysia (RM)



The per capita income in Malaysia registered a CAGR growth of 4.0% between 2019 and 2023, from RM45,311 to RM52,955. Due to the outbreak of the COVID-19 pandemic and subsequent lockdowns in economic and social activities, the per capita income was affected in 2020, before rebounding in the following years (figure 5).

Source: Bank Negara Malaysia

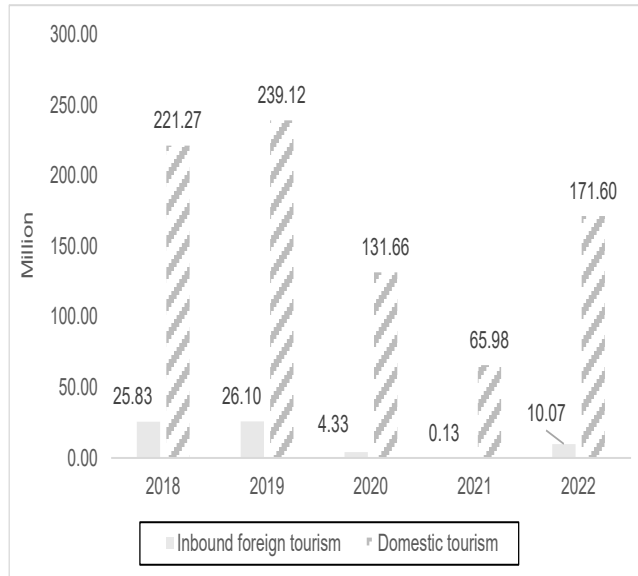
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5.3 IMPACT OF INBOUND FOREIGN TOURISM AND DOMESTIC TOURISM

The fashion industry is also dependent on the tourism industry. Shopping has become a favourite past time for many foreign tourists, partly due to the relatively weak RM against major foreign currencies.

Figure 6: Inbound Foreign Tourism and Domestic Tourism in Malaysia



Source: *Tourism Malaysia and Department of Statistics Malaysia*

Many popular fashion brands, both international and domestic, have a physical presence in the shopping malls in Malaysia.

However, due to the closure of international borders as a result of the restrictions imposed by the Government following the outbreak of the COVID-19 pandemic, the tourism industry took a heavy blow in 2020 and 2021, before recovering in 2022. The number of inbound foreign tourists declined by a negative CAGR of 21.0% between 2018 and 2022, from 25.83 million to 10.07 million (figure 6).

Domestic tourists refer to residents (citizens and non-citizens) living in Malaysia who make a trip outside his/her usual environment for less than a year for the purpose of business, leisure or personal. They comprise both tourists (who travel for at least 24 hours) and excursionists (who travel for less than 24 hours). Shopping was the most prevalent purpose. Domestic tourism was expanding during the pre-pandemic years of 2018 and 2019, before the series of lockdowns associated with the COVID-19 pandemic caused domestic tourism to plunge in 2020 and 2021. It recovered subsequently in 2022. Between 2018 and 2022 the number of domestic tourists declined by a negative CAGR of 6.2%, from 221.27 million to 171.60 million.

5.4 INCREASING URBANISATION

Increasing urbanisation is anticipated to be another major source of demand for fashion in the coming years as more people populate urban areas for better education and job opportunities. The urbanisation rate in Malaysia increased from 74.3% in 2015 to 78.2% in 2022 (source: Twelfth Malaysia Plan 2021-2025; Infobusiness Research). This is anticipated to further increase to 79.8% in 2025 (source: Ministry of Housing and Local Government). City residents are more fashion-conscious and aware of the latest fashions and wanting to wear fashionable footwear, handbags and accessories.

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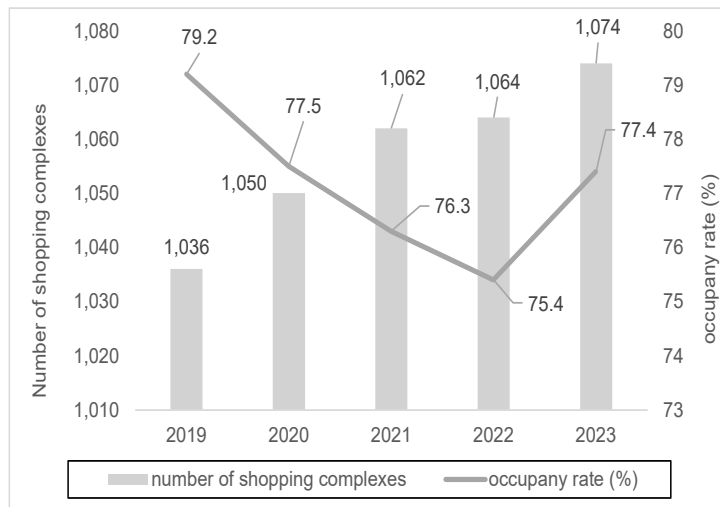
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6.0 Supply Conditions

6.1 DEVELOPMENTS IN THE RETAIL INDUSTRY IN MALAYSIA

The rapid growth and expansion of more shopping complexes in Malaysia have provided shoppers with a wider selection of products and more excitement, as well as more access to physical fashion stores in various locations. The stock of shopping complexes increased by a CAGR of 0.9% between 2019 and 2023, from 1,036 to 1,074.

Figure 7: Stock of Shopping Complexes in Malaysia



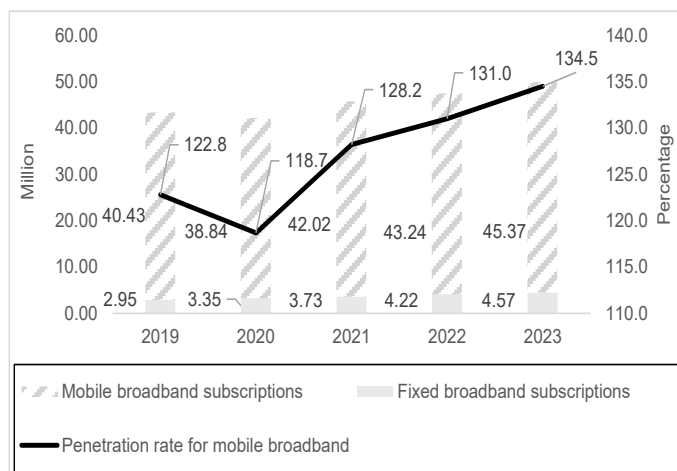
Source: Valuation and Property Services Department

Meanwhile, the occupancy rate of shopping complexes (computed based on sq. m. and not on the stock of shopping complexes) decreased from 79.2% to 77.4% during the corresponding period, primarily due to an excess of shopping complexes constructed in unfavourable locations (figure 7). The outbreak of the COVID-19 pandemic led to further declines in the occupancy rates in 2020, 2021 and 2022, before recovering in 2023.

6.2 DEVELOPMENTS IN BROADBAND INFRASTRUCTURE

A well-developed internet infrastructure such as broadband plays a key role in e-commerce, including the online fashion market.

Figure 8: Broadband Subscriptions (Million) and Mobile Broadband Penetration Rate (%)



Source: Malaysian Communications and Multimedia Commission.

The number of subscriptions in fixed broadband increased from 2.95 million in 2019 to 4.57 million in 2023, yielding a CAGR of 11.6% during the period (figure 8). The number of subscriptions in mobile broadband reached 45.37 million in 2023 from 40.43 million in 2019, generating a CAGR of 2.9%, while the penetration rate for mobile broadband rose to 134.5% from 122.8%, correspondingly. The penetration rate for mobile broadband is calculated based on the number of subscriptions per 100 inhabitants. A penetration rate of 100% can occur due to multiple subscriptions.

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6.3 SUPPLY CHAIN DISRUPTIONS

The disruption in the supply chain in the fashion industry due to the COVID-19 pandemic has been compounded by the geopolitical tension arising from the Russian-Ukraine conflict. Russia is one of the largest exporters of crude oil in the world. The rising prices of petroleum resulting from the conflict could also mean higher raw material prices for downstream petroleum-derived synthetic fabrics such as polyurethane, polyester and nylon, resulting in potentially higher retail prices for fashion products.

7.0 Substitutes

There are no substitutes in the fashion industry for products such as women's footwear, women's handbags and accessories.

8.0 Overview and Prospects of the E-Commerce Industry In Southeast Asia

Southeast Asia is home to over 650 million people comprising a multitude of diverse ethnicities, cultures and religions, as well as online shopping habits. The COVID-19 pandemic has driven a dramatic uptake of digital adoption across the region, accelerating the shift towards online retail channels that was already underway. The shift to online shopping is expected to stay post-pandemic as it is increasingly recognised as an essential business strategy. E-commerce revenue in Southeast Asia expanded from RM135.8 billion in 2018 to RM451.3 billion in 2022, yielding a CAGR of 35.0% during the period. It is expected to further increase to RM 748.2 billion in 2027, charting a CAGR of 10.6%.

9.0 Overview and Prospects of the Fashion Industry in Indonesia

Indonesia, the world's fourth most populous country, has a population of about 264 million. Competition in the Indonesian fashion industry is intense due to the large number of players, both local and foreign. The fashion industry either source imported products from importers and distributors or source directly from local manufacturers. The revenue of selected fashion segments of the fashion industry in Indonesia between 2018 and 2022, and projected between 2022 and 2027 are as follows.

- accessories – RM15.08 billion in 2018 to RM17.89 billion in 2022, recording a CAGR of 4.4%. It is anticipated to increase by a CAGR of 7.7% to attain RM25.96 billion in 2027;
- women's footwear – RM5.19 billion in 2018 to RM5.43 billion in 2022, recording a CAGR of 1.1%. It is expected to record a CAGR of 10.2% to reach RM8.81 billion in 2027; and
- women's handbags – RM2.15 billion in 2018 to RM2.31 billion in 2022, registering a CAGR of 1.8%. It is projected to register a CAGR of 6.6% to arrive at RM3.17 billion in 2027.

10.0 Overview and Prospects of the Fashion Industry in Thailand

The emergence of low-cost airlines in Southeast Asia has made tourism more affordable for inbound tourists into Thailand, while domestic tourism has also become a popular pastime in Thailand, which has a population of around 72 million. The outbreak of the COVID-19 pandemic had an impact on the revenue of the fashion industry. The revenue of selected fashion segments of the fashion industry in Thailand between 2018 and 2022, and forecasted between 2022 and 2027 are as follows.

- accessories – RM21.40 billion in 2018 to RM20.87 billion in 2022, recording a CAGR of -0.6%. It is anticipated to increase by a CAGR of 6.0% to attain RM27.99 billion in 2027;

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- women's footwear – RM6.72 billion in 2018 to RM6.61 billion in 2022, recording a CAGR of -0.4%. It is expected to record a CAGR of 10.4% to reach RM10.82 billion in 2027; and
- women's handbags – RM3.10 billion in 2018 to RM3.07 billion in 2022, registering a CAGR of -0.2%. It is projected to register a CAGR of 6.7% to arrive at RM4.24 billion in 2027.

11.0 Positioning & Prospects of Carlo Rino Group Berhad

11.1 Comparable Companies

Carlo Rino Group Berhad is a designer, distributor and retailer of a wide collection of women's handbags, footwear, and accessories, generally targeting young female working adults between the ages of 18 and 35. The comparable companies are selected based on the following criteria (table 1):

- must be involved in the retailing of women's handbags, footwear, and accessories, with a chain of physical retail stores in Malaysia. Fashion companies that are involved mainly in retailing apparels in Malaysia are excluded; and
- in addition, in order to be selected as a comparable company, the latest financial statements must be available with the Companies Commission of Malaysia.

The fashion industry in Malaysia is a very fragmented one, given the inherent nature of the industry, as there are numerous stores in each shopping complex. There were 1,074 shopping complexes in Malaysia in 2023 (source: Valuation and Property Services Department),

Table 1: Business Activities of Comparable Companies to Carlo Rino Group Berhad

Company	Business Activities	Major Brand Names
Carlo Rino Group Berhad	It is a designer, distributor and retailer of a wide collection of women's handbags, footwear, and accessories, generally targeting young female working adults between the ages of 18 and 35.	Carlo Rino and C.Rino
Vincci Ladies' Specialties Centre Sdn Bhd	It is a subsidiary of Padini Holdings Berhad, a company listed on the Main Market of Bursa Securities and is involved in the retailing of women's footwear and accessories.	Vincci, Vincci Mini and Vincci Accessories.
Miroza Leather (M) Sdn Bhd	It is a subsidiary of MESB Berhad, a company listed on the Main Market of Bursa Securities and is involved in the trading and retailing of women's handbags and men's apparels and accessories.	Pierre Cardin, Feraud, Giamax, Alain Delon, Giossardi, Tocco Toscano, Crocodile, and Ducati.
F J Benjamin (M) Sdn Bhd	It is involved in the retailing and distribution of apparels, handbags, footwear and accessories for both men and women and its parent company is listed on the Singapore Exchange.	GUESS, Cole Hann, Lancel, Petunia Pickle Bottom, Pretty Ballerinas, and Rebecca Minkoff.
H & M Retail Sdn Bhd	It is involved in the retailing of apparels, handbags and accessories for both men and women, and its parent company is listed on the Stockholm Stock Exchange.	H&M.
Nose International Sdn Bhd	It is involved in the retailing of women's footwear and handbags.	Nose.
Opera Marketing Sdn Bhd	It is involved in the trading of women's footwear and handbags.	Opera.

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Company	Business Activities	Major Brand Names
Shellys Marketing Sdn Bhd	It is involved in the retailing of men's footwear and women's footwear and handbags.	XES, EGURLS and PedaHeel.
Shirano Sdn Bhd	It is involved in the retailing of men's footwear and women's footwear and handbags, as well as accessories.	Amori, Santa Barbara, Everbest and Mi Mancci.
Transmarco Concepts Sdn Bhd	It is involved in the retailing of handbags, footwear and accessories for both men and women.	Caterpillar, LeSportSac, Hush Puppies, and Obermain.

Note:

The brands carried by the above comparable companies comprise a mixture of in-house brands and licenced brands.

Source: Companies Commission of Malaysia, companies' websites, and Infobusiness Research

Selected financial information of the above comparable companies to Carlo Rino Group Berhad is presented in table 2 below.

Table 2: Financial Information of Comparable Companies to Carlo Rino Group Berhad (RM '000)

Company	Latest FYE	Revenue	GP	GP margin (%)	PAT/LAT	PAT / LAT margin (%)
Carlo Rino Group Berhad	30/06/23	113,534	70,064	61.7	23,853	21.0
Vincci Ladies' Specialties Centre Sdn Bhd	30/06/23	208,764	102,250	48.9	38,063	18.2
Miroza Leather (M) Sdn Bhd	30/06/23	150,744	95,951	63.7	13,166	8.7
F J Benjamin (M) Sdn Bhd	30/06/23	171,454	92,052	53.7	12,327	7.2
H & M Retail Sdn Bhd	30/11/22	688,837	381,122	55.3	23,403	3.4
Nose International Sdn Bhd	31/12/22	8,178	4,893	59.8	575	7.0
Opera Marketing Sdn Bhd	30/11/22	2,201	1,166	52.9	435	19.8
Shellys Marketing Sdn Bhd	31/03/22	51,080	24,385	47.7	249	0.5
Shirano Sdn Bhd	31/12/22	15,103	7,421	49.1	1,710	11.3
Transmarco Concepts Sdn Bhd	31/12/22	81,351	42,725	52.5	8,116	9.9

Notes:

N. A. = Not Applicable / Not Available

Shellys Marketing Sdn Bhd was granted an exempt private company status by the Companies Commission of Malaysia on 31 March 2023.

Source: Companies Commission of Malaysia, companies' websites and Infobusiness Research

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11.2 Market Size and Market Share

The market share of Carlo Rino Group Berhad in selected segments of the fashion industry in Malaysia in 2022 are shown in table 3 below.

Table 3: Market Share of Carlo Rino Group Berhad in 2022 (%)

Categories	Revenue of Carlo Rino Group Berhad (RM '000)	Industry Revenue (RM million)	Market Share (%)
Women's handbags	77,292	3,086.6	2.5
Women's accessories	23,266	16,097.8	0.2
Women's footwear	21,232	3,905.4	0.5

Notes:

Revenue for Carlo Rino Group Berhad is based on January 2022 to December 2022.

Industry revenue for accessories refer to products utilised by both males and females, as some accessories are used by both genders, such as jewellery, watches and writing instruments.

Source: Infobusiness Research

12.0 Outlook and Prospects of the Industry

The fashion industry in Malaysia has been substantially influenced by the penetration of premium and luxury fashion brands from around the world and this is anticipated to continue into the future. Fashion retailers are increasingly positioning shopping as an intrinsic part of a desired customer lifestyle and as such, have been aligning their businesses to match customers' expectations. Spending a weekend at a popular shopping mall is a popular choice for families not looking to travel too far from home. To capitalise on this trend, fashion retailers have increased their presence in the retail market, particularly in shopping malls.

Malaysia is a multiracial country with several cultural and religious holidays and festivals throughout the year. Occasions such as the Chinese New Year, Hari Raya Aidilfitri, Deepavali and Christmas are when many Malaysians go on holidays to visit and spend time with friends and family. Sales of fashion products in Malaysia, including footwear, handbags and accessories, experience a significant sales boost prior to such festive seasons, as well as occasional celebrations such as Valentine's Day and Mother's Day and this is expected to continue into the future.

The fashion market will continue to grow, along with an increase in the population. Companies that prove themselves in the areas of global brand management, shopping experience and multichannel strategy will have the best outlook for success. Following the natural progression of e-commerce in other consumer products, fashion is anticipated to start becoming a more popular category for online shoppers, especially with the rise of more affluent female customers. As the internet becomes increasingly accessible to more and more people, and online shopping becomes a major part of customer's lifestyles, the online fashion market is expected to flourish in the coming years.

The projected revenue of selected fashion categories of the fashion industry in Malaysia between 2022 and 2027 are as follows:

- accessories – RM16.09 billion to RM23.49 billion, recording a CAGR of 7.9%;
- women's footwear – RM3.91 billion to RM6.00 billion, recording a CAGR of 9.0%; and
- women's handbags – RM3.09 billion to RM4.34 billion, registering a CAGR of 7.1%.